

UNIVERSITI TEKNOLOGI MARA

**ABILITY OF CASH FLOW PATTERNS
TO PREDICT OCCURRENCE OF
FINANCIAL DISTRESS**

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Dissertation submitted in partial fulfillment

of the requirements for the degree of

Master of Accountancy

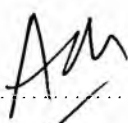
Faculty of Accountancy

December 2014

AUTHOR'S DECLARATION

I declare that the work in this dissertation was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the results of my own work, unless otherwise indicated acknowledged as referenced work. This topic has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Post Graduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

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ABSTRACT

A relatively simple and convenient way to analyse a company's financial status is to examine the patterns of cash flow. The cash flow patterns derived from positive and negative signs of its cash flow components that consist of operating, investing and financing activities. The present study investigated eight types of cash flow patterns to predict financial distress incidence. The data collected consists of 62 distressed and 62 healthy companies within the context of Malaysian public listed companies for three years prior distress year between 2006 until 2013. The primary aim of the present study is to examine whether there is any significant relationship between patterns of cash flow components and financially distress companies. The results revealed that the patterns that can be predictor of financial distress incidence are the second (+ - -), third (+ + -), fourth (+ - +) and eighth (- - -) cash flow patterns. The results also found that there is a significant difference between distressed and healthy companies in incidence of different patterns of cash flow. In addition, in one year before distressed, the most popular patterns among distressed companies in Malaysia are second (+ - -) and third (+ + -) type of cash flow pattern. For two and three years before distressed, the most frequent pattern is also the second (+ - -) type of cash flow pattern followed by sixth (- - +) cash flow pattern. Therefore, patterns of cash flow can be considered as an alternative tool to predict the occurrence of financial distress. The results provide an insight to the investors that this is another warning sign of impending bankruptcy.

TABLE OF CONTENTS

	Page
AUTHOR'S DECLARATION	ii
ABSTRACT	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v
LIST OF TABLES	ix
LIST OF FIGURE	x
LIST OF ABBREVIATIONS	xi

CHAPTER ONE: INTRODUCTION

1.1 Introduction	1
1.2 Background of Study	2
1.3 Problem Statement	4
1.4 Research Questions	6
1.5 Research Objectives	6
1.6 Contribution of the Study	6
1.7 Scope of the Study	7
1.8 Organization of the Study	8
1.9 Chapter Summary	9

CHAPTER TWO: LITERATURE REVIEW

2.1	Introduction	10
2.2	Cash Flow Theory	10
2.3	Definition of Financial Distress	12
2.4	Cash Flows Components	14
2.5	Patterns of Cash Flow Statement	15
2.5.1	The Analysis of First Cash Flow Pattern (+, +, +)	15
2.5.2	The Analysis of Second Cash Flow Pattern (+, -, -)	16
2.5.3	The Analysis of Third Cash Flow Pattern (+, +, -)	17
2.5.4	The Analysis of Fourth Cash Flow Pattern (+, -, +)	18
2.5.5	The Analysis of Fifth Cash Flow Pattern (-, +, +)	19
2.5.6	The Analysis of Sixth Cash Flow Pattern (-, -, +)	19
2.5.7	The Analysis of Seventh Cash Flow Pattern (-, +, -)	20
2.5.8	The Analysis of Eighth Cash Flow Pattern (-, -, -)	21
2.6	Cash Flow Information and Financial Distressed Studies	22
2.6.1	Cash Flow Patterns and Financial Distress	22
2.6.2	Cash Flow Ratios and Financial Distress	23
2.6.3	Using Cash Flows Information to Develop Financial Distress Model	24
2.7	Conceptual Framework	25
2.8	Chapter Summary	27